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ABSTRACT

An examination of the recent performance of the United States Employment Service (USES) and the State Employment Security Agency (SESA) results in the following conclusions: (1) there are compelling public responsibilities that require the government to provide some employment services; (2) developing demographic, production, and budgetary forces have created an urgent need to redefine federal responsibilities; and (3) the 1990s will challenge the USES to target very limited federal resources in ways that ensure that the SESAs offer reliable competency certification and efficient referrral of candidates to jobs. Policy alternatives include maintaining the status quo; withdrawing from public responsibility for labor-exchange services; giving up state control in the management of labor-exchange responsibilities; abandoning federal oversight of the management of labor-exchange functions; and adopting a hybrid approach that uses market incentives to achieve efficiencies akin to good business practices, but that retains public responsibility for defining appropriate system goals and performance standards. The last option seems best and may include decentralizing through providing block grants to states, offering states competitive grants for innovative practices, and establishing a National Center for Employment Service Training and Research. (Forty-one references are included.) (CML)

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19. THE ROLE OF THE EMPLOYMENT SERVICE

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THE ROLE OF THE EMPLOYMENT SERVICE

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I. Introduction

Statutory authority to maintain a United States Employment Service (USES) is found in Title VI of The Job Training Partnership Act of 1982 (Public Law 97-300), as amended in 1988. The USES is part of the Employment and Training Administration in the Department of Labor. Fewer than forty USES employees oversee a federal budget of approximately $800 million, which supports some 25,000 State Employment Security Agency (SESA) employees and about 1,800 local offices.

An SESA is found in each of the fifty states, Guam, the Virgin Islands, the Commonwealth of Puerto Rico, and the District of Columbia. Two factors determine each state's share of appropriated funds allotted by the Secretary of Labor. Two-thirds of available funds are allotted on the basis of each state's relative share of the nation's civilian labor force, and one-third is allotted on the basis of each state's relative share of the number of unemployed individuals. Data for the most recent calendar year available, as determined by the Secretary, are used for this purpose.

Ninety percent of the funds each SESA receives may be used for designated services, such as counseling, testing, labor market information, referral to jobs, recruitment and special technical services on behalf of employers, administering tests of unemployment insurance claimants' availability for and willingness to accept

employment, program evaluation, and development of ties with activities authorized in related federal or state legislation. Ten percent of the funds received must be reserved for each Governor to provide performance incentives, services for groups with special needs, and to cover the extra costs incurred in delivering services using exemplary models. The USES and the SESAs are authorized to provide other services under contract.

This paper examines the recent performance of the USES-SESAs system, and recommends a way to improve upon this record. Following a brief review of important milestones in the system's evolution, a conceptual framework is introduced to guide the examination of actual and potential contributions to the nation's competitiveness.

Three conclusions emerge in our discussion of these issues:

1) There are compelling public responsibilities that require an effective government partner in the provision of some employment services.

2) Developing demographic, production and budgetary forces have created an urgent need to redefine federal responsibilities.

3) The 1990s will challenge the USES to target very limited federal resources in ways that assure the SESAs offer reliable competency certification and efficient referral of candidates to jobs. This will be an essential governmental contribution to promote sustained economic growth in a competitive international context.

II. Historical Perspective

Figure 1 reveals the USES-SESAs system's institutional development. The important lesson to be learned here is that federal, state and local relationships have been repeatedly destabilized as Administrations and sessions of Congress redefine the federal agency's organizational turf.

Figure 2 offers a second valuable lesson--at the same time that institutional relationships have been subject to the recurring stresses, target group priorities and institutional missions have been revised. Currently, each SESA performs four basic functions:

1) testing, assessment, and referral of registrants to job openings listed with an SESA;
2) unemployment insurance benefit payments;
3) enforcement and compliance activities; and
4) labor market information activities, including research.

Many contradictions and inefficiencies lie hidden beneath the surface of this simple listing of missions. The following conceptual section shows how the turmoil described in figures 1 and 2 would be expected to affect the USES-SESAs system.

III. A Conceptual Framework

A distinction can be drawn between public sector *provision* of services, and the actual *production* of these services (Kolderie, 1986: 2-16). *Provision* refers to the establishment of policies, the statement of compliance standards to accompany these policies, financing, and

Figure 1

Chronology of the Public Employment Service in the United States

1830s First public support for labor exchange activities through municipal and state sources.

1907 A Division of Information is created in the Bureau of Immigration and Naturalization to inform immigrants about opportunities in different locations throughout the United States.

1917 The Secretary of Labor secures a Congressional appropriation to establish a national system of local offices suitable to meet War mobilization needs.

1933 The Wagner-Peyser Act becomes law, following previous Presidential vetoes in 1930 and 1932. This Act provides for federal-state matching to fund State Employment Security Agencies (SESAs).

A federally funded National Reemployment Service is created within the new U.S. Employment Service (USES) to make referrals to public works and work relief projects.

1935 A national Unemployment Insurance (UI) program is enacted as Title III of the Social Security Act. The SESAs are given administrative responsibility for assuring claimant compliance with continuing eligibility requirements. A federal tax on designated payrolls is authorized to cover administrative costs associated with UI responsibilities.

1939 Bureau of Employment Security formed to administer both UI and ES functions within the Federal Security Agency, under the authority of the Social Security Board.

1942 The SESAs are federalized as WW II begins. The USES is transferred to and becomes the operating arm of the War Manpower Commission.

1943 SESA administrators successfully lobby for Congressional assurance that federal-state partnerships will be reestablished at the War's end.

1945 The USES is transferred back to the Department of Labor (DOL) by Presidential Executive Order.

1948 In an appropriations bill, the Congress returns the USES to the Federal Security Agency under the Social Security Board.

1949 In a major reorganization of federal agencies, the Congress transfers both the USES and UI agencies to the DOL.

1962 Office of Manpower Automation and Training (OMAT) set up to administer Manpower Development Training Act (MDTA).

1963 Manpower Administration set up to take over operational responsibilities previously held by OMAT. OMAT left with research and development.

1964 The Economic Opportunity Act (EOA) creates Community Action Agencies, which become a federally funded direct competitor with the USES-SESA system.

1967 Realignment of Manpower Administration. Bureau of Employment Security (BES) retains USES-SESA operation.

1973 The Comprehensive Employment and Training Act (CETA) creates local Prime Sponsor entities, which also have complete discretion to use or bypass SESA services.

1975 Name of Manpower Administration changed to Employment and Training Administration (ETA).

1982 Title V of the Job Training Partnership Act (JTPA) amends the Wagner-Peyser Act of 1933 for the first time (see text for excerpts of key provisions).

1988 The Omnibus Trade and Competitiveness Act of 1988 creates a new Title V of the JTPA, so USES authority becomes Title VI.

Figure 2

Chronology of Public Employment Service Constituent Priorities in the United States

Prior to 1907	Local discretion.
1907-17	Dispersion of immigrants from ports-of-entry to inland locations.
1917-20	WW I mobilization and return to civilian economy.
1920-33	Local discretion.
1933-41	Referral to public works and work relief projects.
1942-45	WW II mobilization.
1946	Secretary of Labor publishes a directive in the *Federal Register* stating a six-point USES agenda, including "(1) services to specified target groups; (2) services to employers; and (3) services to community constituencies other than specified target groups and employers (e.g., the schools)."
1950s	Various directives from BES identify eight target groups who are to be accorded priority services: apprentices, ex-offenders, the handicapped, minorities, Native Americans, older workers, veterans, and youth.
1961	The Area Redevelopment Act requires the SESAs to participate in the identification of distressed *areas*.
1962	MDTA requires the SESAs to identify appropriate training opportunities for long-time labor force participants whose skills were no longer viable and who had been displaced.
1963	The Vocational Education Act broadens the SESAs' involvement in the identification of training opportunities in the U.S. economy.
1964	The Economic Opportunity Act (EOA) leads the DOL to establish Youth Opportunity Centers (YOCs) in many inner cities to serve minority economically disadvantaged youth. These YOCs become the primary recruitment and screening facilities for both the Job Corps and the Neighborhood Youth Corps authorized in the EOA.
1973	CETA permits, but does not require, SESA involvement in serving economically disadvantaged populations.
1982	The JTPA replaces CETA and continues to permit, but not require, SESA participation in serving economically disadvantaged populations.

associated regulations for the production of the services. *Production* encompasses only the actual delivery of the services. Continued federal provision for selected USES-SESA services is compatible with greater reliance on state and private sector production of these services. We assume here that the federal government's responsibility is to complement the actions of all other parties to achieve truly national goals.

Three functions of the USES-SESA system are examined here:

1) testing, assessment, and referral activities;

2) enforcement and compliance activities; and

3) labor market information and research activities.

The fourth function, UI benefit payments, is not treated.

It is useful, when examining federal and state responsibilities for these three types of service, to apply four of Kolderie's six elements on the merits of using market incentives in the production of any public service (Kolderie, 1986: 7-11).

(1) **Competition**. Competition generally reduces the cost of a service, unless there are economies of scale in the production of that service. Fee-charging personnel consultants are small (Stevens, 1984: 40) and local. In communities of 50,000 or more, competitive market characteristics are usually observed. Where there are economies of scale to be realized in the *production* of labor exchange services, then noncompetitive public services may be more efficient.

(2) **Creaming**. A frequent criticism of fee-charging personnel consultants (GAO, 1986: 18-19) is that they serve only the profitable clients, leaving the rest to the SESAs. The government can minimize creaming by either public or private agencies. This can be done by

offering subsidies to encourage service to a broader constituency, or by introducing selective taxes to discourage restricting service to a narrower range of clients.

(3) **Control.** Protection of the public's interests in labor exchange activities depends upon placing the p[illegible]cers of the required services at genuine risk if they fail to comply with established performance standards. Reliance on market forces alone will result in an underinvestment in search by both jobseekers and employers. Undue weight is given to ability to pay. Possible economies of scale are foregone. And social values regarding affirmative action eligibility are ignored.

The use of market forces lies at the heart of the options for change that are explored later. The goal is to assure that both public and private sector producers are placed at risk, if they accept funds provided through public auspices for specific labor exchange services, but they then fail to comply with the standards that have been set. Withdrawal of the government's commitment of funds is the ultimate threat.

(4) **Community.** Opponents of information sharing between public and private sector labor exchange intermediaries sometimes argue that the self-interest motives of fee-charging personnel consultants conflict with the public's interests. As long as government *provision* of appropriately defined labor exchange services is retained, this concern should be unfounded. Through proper use of the law, administrative regulations, and financial incentives, the public agent should be able to control the situation.

Distinct SESA Local Office Activities

These concepts--provision versus production, and competition, control and community--can be used to examine each of the three basic functions of a SESA (excluding UI benefit payment responsibilities).

Testing, Assessment and Referral

There is a compelling public interest in testing, assessment, and referral services, which justifies a commitment of public resources to their provision. Must the production of these labor exchange services also be a federal responsibility? No; for reasons that are introduced below.

Historically, a variety of sharing arrangements for provision and production of labor exchange functions have been exhibited in the United States (Adams, 1969; Haber and Kruger, 1964; ICESA, 1975; Johnson, 1973; Kolberg, 1976; Lubin, 1980; NCEP, 1978; Odell, 1969; OECD, 1984; Ruttenberg and Gutchess, 1970; Snelling [undated]; Stevens, 1984; Thal-Larsen, 1970; U.S. GPO, 1964a, b, and c, and 1976; Wegmann, 1983). The contribution of these studies is captured in one recent paragraph (OECD, 1984: 49):

> ...[I]n certain countries the Public Employment Service has a monopoly of formal placement operations; the activity of private placing agencies is considered undesirable or even abusive. In other countries, private agencies are allowed to function, but under surveillance and somewhat on sufferance; in yet others, the public service is in the position of having to defend itself against the charge of offering them unfair competition. *The rationale behind these differing attitudes seems to be the reflection less of*

economic considerations than of a particular philosophy of government, the concept of the role of the State. [emphasis added]

With respect to testing, assessment, and referral activities in the United States, we conclude that there is a compelling federal responsibility to provide a threshold level of these services free of charge to all individuals who voluntarily avail themselves of the opportunity to use these services. The public interest reflects social values regarding uneven abilities to pay, affirmative action advocacy priorities, underinvestment by parties motivated solely by self-interest, and possible economies of scale in the provision of these services. In other words, both economic considerations and our interpretation of prevailing social values regarding government stewardship responsibilities in the United States support this conclusion.

The federal responsibility to provide limited testing, assessment, and referral services follows from a recognition that interstate and international competitive forces will surely limit state legislative appropriations in support of these vital public interests to a level below what is consistent with the social values expressed in the previous paragraph.

The federal interest, as a producer/buyer of testing, assessment, and referral services, is to increase productivity and earnings while reducing dependency upon federal benefits, and offering affirmative advocacy on behalf of designated individuals. Accountability for federal funds should be achieved through the definition and application of appropriate performance indicators.

It is imperative that each reader assess the merits of what follows independent of any beliefs about historical and current performance of labor exchange functions by the SESAs. Decisions about the future of the USES-SESAs system should not be based on historical or contemporary evidence about the labor exchange performance of a system that has never been asked or permitted to pursue an unencumbered community labor market information goal.

What would happen to such current SESA activities as validity generalization testing (a recent scoring innovation used with the General Aptitude Test Battery) or mass recruitment and screening activities on behalf of specific employers, if this proposed restriction of federal support for limited testing, assessment, and referral activities is adopted? Two approaches warrant consideration:

(1) These responsibilities could be devolved to the states, thereby forcing each to decide what the limits of government subsidy for these activities ought to be; or

(2) the federal government could contribute a limited amount of support to these activities, basing this willingness on the existence of a beneficial externality in the form of higher productivity and enhanced national competitiveness. This appears to be a weak argument at this time, because states are exhibiting an unprecedented willingness to subsidize private sector recruitment and training costs.

No mention has been made up to this point of a compelling federal interest in SESA *placements*. We have already identified the federal interest, as a buyer of public or private agent services, to be an increase in productivity and earnings, reduced dependency upon federal benefits, or provision of affirmative advocacy on behalf of designated

individuals. Performance standards with respect to these outcomes are feasible. Routine ways to accomplish accountability already exist in the private sector, where fees are sometimes made contingent upon length of stay in a specific job, the compensation associated with that position, or the status of the individual who is placed.

The federal government could accept responsibility for establishment of "prices" for individual services that are only high enough to achieve the desired quality of performance. A combination of public and private sector vendors should offer sufficient competitive forces to accomplish this goal in most locations. If there are economies of scale to be realized through coordination and consolidation of federally funded human services programs, these economies should be revealed in the vendor bidding process, and through expressions of management intent to move in this direction by Private Industry Councils, Job Service Employer Committees, and State Job Training Coordinating Councils.

There should be no need to mandate coordination. The issuance of a federal price list for desired services should offer every potential public or private sector agent all the information it requires to determine whether it is in that agent's interests to bid for a performance-based contract. Interstate differences in the cost of achieving a uniform quality of service can be recognized in many ways now routinely practiced in other public- and private-sector activities.

Provision could be made for individuals who have been identified by the federal government as eligible for a federal job-seeking subsidy to receive this subsidy directly (e.g., in the form of a voucher). Similarly, employers could be offered direct access to this subsidy,

without the involvement of either public or private agents. A small number of demonstration programs are underway to test different approaches to the use of market incentives to encourage UI claimants to return to work sooner. The procedures used in the Targeted Jobs Tax Credit program illustrate how an employer subsidy could be accomplished. The goal, in each of these instances, is to encourage *co-production* of job search; i.e., to capitalize on self-interest motives by encouraging all possible agents to seek their best advantage. *The essential safeguard, of course, is to define the public's interests with sufficient precision that creative abuses will not arise.* The adoption of earnings and longevity measures of performance will discourage "churning" abuses, for example.

Contract management is a costly activity. Federal resources would be required to manage the process described here. Many administrative details would have to be dealt with:

1) What is the appropriate geographical unit for contracting purposes?
2) Should a single franchisee be awarded a contract for a given territory for a specified period of time to secure the benefits of economies of scale, or should multiple vendors be supported to foster competition?
3) How often should new bids be solicited to assure that the benefits of competitive forces are realized?
4) What sanctions should be imposed for specific types of deficient performance?

It is possible that expensive investments would be made in setting up the administrative capability to manage the federal responsibility,

only to discover that private sector vendors have a limited interest in serving the populations that warrant federal subsidy. This could occur if these agents fear a loss of identity with current employer clients. Two observations about this possibility are offered:

1) appropriate tests of the likelihood that this eventuality would arise could be conducted prior to an irreversible commitment to such an approach; and

2) self-interest motives can be depended upon to reveal the "right" price for serving *any* population deemed worthy of federal subsidy.

The federal government's track record in management of performance-based contracts is extremely uneven. Political forces sometimes distort the process. Insufficient attention to the management resources that are necessary to conduct performance oversight and audits can destroy the process. Substantial capacity building throughout the USES-SESAs system is going to be required no matter what mission assignment and organizational approach are adopted.

Enforcement and Compliance

The following conclusions about enforcement and compliance activities are warranted (Stevens, 1976: 185-201; Stevens, 1980: 51-62; Burgess and Kingston, 1982; Corson, Long, and Nicholson, 1985; Corson, Hershey, and Kerachsky, 1985):

1) There is not a national interest in testing compliance with continuing eligibility requirements for UI claimants because the laws governing these requirements are of state origin.

2) There is a national public interest in testing compliance with federally funded benefits (e.g., AFDC and food stamps).

3) Enforcement responsibilities on behalf of UI claimants and recipients of federal funds are among the justifications given for maintenance of SESA labor exchange activities, and for the commitment of Federal Unemployment Tax Act (FUTA) funds and of other federal revenues to support these activities.

4) There is compelling evidence that routine testing of individual availability and active search requirements through SESA auspices is extremely difficult to achieve (Burgess and Kingston, 1982; U.S. Department of Labor (ETA), 1988b).

5) These enforcement responsibilities clearly contribute to the limited effectiveness to date of many SESA local offices in achieving the public interests stated earlier. This is so for three reasons: resources are absorbed in other activities; staff awareness of applicant and employer motives is severely hampered; and the image of the public agent is stigmatized.

Based on these conclusions, separation of enforcement and compliance responsibilities from applicant/employer and labor market information services warrants renewed consideration. (The relative merits of UI and ES collocation and consolidated functional responsibilities have been debated for at least fifty years in the United States).

Labor Market Information

With respect to labor market information and research activities, it is concluded that there is a compelling federal responsibility because citizen well-being cannot be pursued in today's conditions of international competition without a federal commitment to understanding the dynamics of the nations' economy.

JTPA Title IV Part E--Labor Market Information defines a federal responsibility "to maintain a comprehensive system of labor market information on a national, regional, state, local, or other appropriate basis, which shall be made publicly available in a timely fashion."

To date, the federal government has accepted responsibility only for the definition and maintenance of limited databases called the Bureau of Labor Statistics (BLS) core statistical programs (including the Occupational Employment Statistics program, Local Area Unemployment Statistics program, the Permanent Mass Layoffs and Plant Closing program, the Business Establishment List program, and the Establishment Reporting program). These data series are produced by the SESAs under contract with the BLS. These core products are part of, but do not suffice as, a comprehensive system of labor market information that Congress has defined as a federal responsibility.

The federal government should accept responsibility for the definition and maintenance of a truly uniform limited database for state and local program planning, management and evaluation, and other consumer uses. The SESAs would be required to participate in this federally funded effort. States could then supplement this minimum uniform information, if the investment of state funds is determined to be in their public's interest.

It is important to remember that *no labor-exchange intermediary places anyone in a job* (Odell, 1976: 358-9; Carlson, 1986: 3). Every hiring transaction requires two willing parties--a job candidate and an employer. (Third-party approval is sometimes required; e.g., union membership, Senate confirmation, or board acceptance). The labor-exchange function per se is to provide information. Since information

is costly, however, it is necessary to define limits for the amount and types of information that are thought to be a social responsibility.

The social responsibility for providing labor market information has been defined by a number of recent authors (Bendick, 1985: 7-13; OECD, 1984: 116-36). The following reasons have been offered for a public interest in the provision of labor market information:

1) Social values reject ability to pay as an acceptable criterion for access to such information.

2) Social values support affirmative action advocacy on behalf of selected populations.

3) More, or better, information increases the likelihood that the nation's human resources will be committed to their most productive uses.

4) Economies of scale exist in the collection and dissemination of information.

5) The actions of parties motivated solely by self-interest will result in an underinvestment in search by job seekers, employers and fee-charging labor-exchange agents.

Timely and accurate labor market information is the core of the labor exchange responsibility. There is a compelling national interest in the provision of timely and accurate labor market information. Economies of scale in the production of this information represent the single most important reason why a USES/SESA system is required.

UI coverage is now sufficiently pervasive in each state that the SESAs collectively represent a truly extraordinary network for collecting uniform information about the industrial and geographic dynamics of employment in the U.S. (Northeast-Midwest Institute, 1989).

Reasonable confidentiality restrictions on the use of data collected from employers in compliance with each state's UI statute offer sufficient reason to conclude that this information collection activity cannot be privatized.

Appropriate government access to information about the transactions of fee-charging personnel consultants could be required in the public interest, as a quid pro quo for vendor access to public funds. Fundamental public policy questions cannot be answered without such information. For example, do SESA job orders substantially duplicate private agent listings (GAO, 1986: 18)?

From What Should Be to What Is

This conceptual section has established a case for federal government support of a uniform core of testing, assessment, and referral activities; a sharply limited responsibility for enforcement and compliance activities; and acceptance of an already mandated responsibility for labor market information activities that are in the nation's interest. Having presented this case, we turn next to the recent record of federal resource commitment and performance.

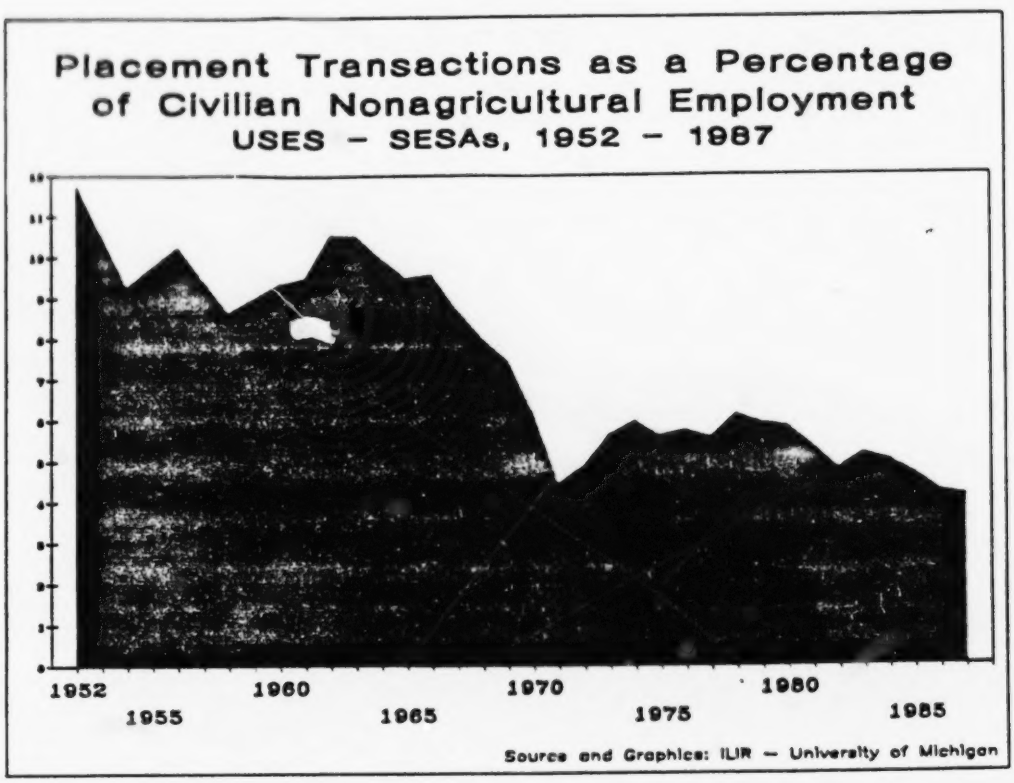
IV. Effectiveness of the Public Employment Service

Introduction

Despite a growing economy and labor force, the USES-SESAs system has over the last several decades become a less important institution, both in the placement of workers and in the generation of labor market information. The typical local office job listing is for an entry-level clerical or high-turnover blue-collar job. If the SESAs do an effective job of placing low-wage workers in jobs that they would not get on their

own, this statistic might not be of concern. However, at the same time that placements have declined, the applicant pool continues to grow. In 1985 there were twice as many SESA applicants as in 1969. These statistics undoubtedly understate the growth in the number of applicants, since budget cutbacks have led many SESAs to discontinue counting applicants who do not receive service. Figure 3 presents historical data on SESA placements as a percentage of employment since 1952.[2]

Figure 3



As figure 3 illustrates, SESA placements as a percentage of civilian nonfarm employment have been declining in importance since 1952, from 12 percent of total civilian nonfarm employment in 1952 to 4 percent in 1987. The trend has been uneven. For example, by 1971,

placements had declined to 4.4 percent, but then rose again until 1978, after which a continuous decline is seen. The 1960s witnessed the mission assignment to serve the economically disadvantaged. This population was difficult to serve even in good times, but was even more difficult during the 1970-71 recession.

A better measure of ES penetration is the ratio of placement transactions to new hires, which we estimate has declined from about 20 percent to about 7 percent over the last 25 years.

Contradictory Objectives Currently Imposed upon the Public Employment Service

Today, the USES-SESAs system is asked to respond to a myriad of sometimes contradictory goals:

1) The ES is asked to offer special service priorities on behalf of veterans, the handicapped, and the economically disadvantaged. This gives employers the impression that the ES is not free to refer the best candidate for a job opening in a timely manner.

2) The UI service unit, usually located in the ES local office building, may challenge UI claimant eligibility to receive UI benefits if they fail to comply with availability, active search, and willingness to accept a bona fide job offer provisions of the state's UI law. Thus, UI claimants may be afraid to use the ES because their failure to accept a job referral might jeopardize their UI benefits. Employers are cautious about hiring UI claimants, who might return to a previous employer if economic circumstances change.

3) The ES is asked to improve the assistance it provides to workers and job seekers, yet is cautioned not to compete with private employment agencies that provide similar services.

4) The ES is asked to cooperate with local vocational education and employment and training agencies, yet these same agencies often choose to offer similar services on their own.

5) The ES is asked to provide high-quality services for its constituents, yet the amount budgeted is unrelated to performance.

6) A major SESA function is to collect and disseminate labor market information, yet the collection of such data reduces the staff time available for servicing applicants.

7) The SESAs are asked to expeditiously process certifications of alien labor for employers who need workers, yet these certifications should not adversely impact the employment of American workers.

These contradictions, often-changing priorities, and cumulatively expanded responsibilities of the ES have been principal reasons for its mediocre performance.

The original purpose of the ES envisioned by its founders in 1933 was stated as follows:

> It shall be the province and duty of the bureau to promote and develop a national system of employment offices for men, women, and juniors who are legally qualified to engage in gainful occupations, including employment counseling and placement services for handicapped persons, to maintain a veterans' service to be devoted to securing employment for veterans, to maintain a farm placement service, and, in the manner hereinafter provided, to assist in establishing and maintaining systems of public employment offices in the several States and the political subdivisions thereof. . . .
> (Wagner-Peyser Act, Section 3(a), 1933)

Prior to the outpourings of federal legislation in the sixties, the staff of the ES was spending three-quarters of its time on placement functions, recruitment, interviewing, application taking, selection, referral, employer contacts, and order taking (Adams, 1969).

By 1976 the Job Service, as it was later called, was involved in the administration of twenty-five other laws, seventeen executive orders, and sixteen agreements with other federal agencies (U.S. Dept. of Labor, 1980:57).

There is extensive documentation to show that lack of focus is a major factor in explaining the mediocre performance of the ES. In a study of state employment security agencies conducted by the Urban Institute, high-performance agencies were characterized by "a clear and consistent sense of mission, with placement the primary objective" (U.S. Dept. of Labor (ETA), 1977:x).

In agencies where ES functions were combined with other functions, the results were disastrous, according to the same Urban Institute study:

> The result of creating a fully unified chain of command and a network of presumably integrated multi-service centers was institutional disaster for the ES. . . . To employers and job seekers alike the integrated offices seemed filled with public aid recipients, and the ES quickly became synonymous with welfare in the public mind . . . morale declined seriously (U.S. Dept. of Labor (ETA), 1979:77).

The lack of mission and focus of the ES is well known. Ross Morgan, administrator of the Oregon Employment Division and then president of the Interstate Conference of Employment Security Agencies

(ICESA), testified that there "are so many priorities that you can't possibly meet them all" (U.S. House of Representatives, 1976:178).

Ernest LaPalm, assistant commissioner of the Washington state SESA, estimated "we get clarification of that (ES) role on the average of once every 10 days" (U.S. House of Representatives, 1976:77).

The Performance and Cost of the Public Employment Service

Federally authorized positions in SESAs increased 85 percent from 1960 to 1966, peaked at 49,000 in 1978, and declined to about half that size today. The 1983 federal budget introduced the sharpest cuts in the last twenty-five years. The positions, individuals placed, and transactions for the ES from 1980 to 1983 according to the budget were cut more than 50 percent. Although these severe cuts were never made, they took their toll on agency morale. Actual outlays for the ES were flat during this period, which meant a cut in staff, because inflation increased. Individuals placed declined from 3.8 million in 1980 to 3.2 million by fiscal 1987.

Compounding the problem in the last ten years, the federal budget for training and employment, of which the public ES is one component, declined from $10.8 billion in 1978 to $6.9 billion estimated for fiscal 1988. This decline put a strain on the public ES, which had received funds from other Manpower programs. For example, in fiscal 1978, while the public ES received $670 million from federal obligations, it received another $422 million from CETA, WIN, food stamps, and other federal programs (U.S. Dept. of Labor, 1979:62). During that year, 30,000 positions were authorized from the $670 million, and another 19,000 were authorized from the $422 million.

A disturbing problem with ES vacancies is that "the largest volume of vacancies listed with the ES are for relatively poorly paid, entry level positions in domestic service jobs, clerical and high turnover blue collar jobs" (U.S. Dept. of Labor (ETA), 1986:32773).

How important has the public ES been as a method of finding jobs for unemployed workers, compared to techniques such as help-wanted advertising? In 1970, 30.2 percent of job seekers used the ES as a job search technique. This has dropped steadily to 21.1 percent in 1988. Help-wanted advertisements were used by only 23.4 percent of unemployed workers in 1970, but by 1988, 34.9 percent of the unemployed used help-wanted advertisements in job search. This number has increased steadily, while use of the public ES has declined steadily. As a percentage of methods used, use of private employment agencies was declining through 1983, but has increased every year since then (U.S. Dept. of Labor (BLS), 1988, 1989). Friends and relatives and contact of employers directly continued throughout to be the most prevalent job search method used.

In evaluating the public ES, it is difficult to measure from any readily available source the value added by the public ES. The average placement of the ES in 1984-85 was at a wage only slightly above the minimum wage and about half of the average wage. An argument made in support of the performance of the ES is that it serves economically disadvantaged people who require more services than job-ready applicants. In program year 1985, although only 10 percent of ES applicants were economically disadvantaged, 32 percent were minorities and 25 percent were under the age of 22 (U.S. Dept. of Labor (ETA), 1988a:16-17).

In the absence of the public ES, how would these jobs be filled? What is the cost of filling these jobs? Is the cost less than what is currently spent by the public ES? Can we justify spending $800 million, the outlay projected by USES for the ES by 1988, for this performance?

Benefits of an Effective Labor Exchange Intermediary

The benefits that an effective labor exchange intermediary can bring to the American economy are a stark contrast to the observed results. To illustrate some of these benefits, we will present a hypothetical cost/benefit model.

Unemployment in the United States has reached record low levels. Even at these low levels, however, 6.7 million people were unemployed on the average during 1988. Furthermore, 1.8 million additional people worked part-time even though they wanted full-time work, and 1.0 million people were not counted as unemployed. Those not counted did not look for work because they thought it was not available. More workers experience some unemployment during the course of a year than at a given point in time. For example, during 1985 when the unemployment rate averaged 7.2 percent, 16.7 percent of those who worked or looked for work experienced some unemployment.

The labor market is a dynamic institution; according to a study by Cohen (1985), an estimated 64,000,000 nonagricultural hiring transactions took place in 1985. As the labor market tightens, employers may not find the right workers to fill job vacancies and may thus risk lost profits due to lost opportunities.

A more efficient labor market exchange can reduce the time workers spend between jobs, match the right worker to the right job, and reduce risk to workers willing to move to areas of relative excess demand for

labor. For example, if a more efficient job service reduced by 20 percent the time between jobs on each spell of unemployment during 1988, the average unemployment rate would be reduced by about 1 percent. If unemployment compensation were paid on half of this time, unemployment compensation would have been reduced by one billion dollars. Furthermore, assuming an average 20 percent marginal tax rate on an average hourly wage of $9.00, government tax revenues would increase by $3.6 billion and social benefits would approximate the total increase in wages, which would be approximately $18 billion. These calculations measure only direct effects and do not even consider multiplier effects which could double or triple the benefits.

If unemployment is high due to insufficiency of aggregate demand, reducing time between jobs would not result in as great a reduction in unemployment as when unemployment is low because employers would hire fewer workers, thus reducing the overall benefits of an employment exchange.

Other studies suggest that investments in better job matching can lead to enormous increases in productivity in the U.S. economy. Bendick, for example, suggests that an investment in testing applicants using tests such as the GATB and Compass "can assist the nation to capture some of the $20 million or more in productivity improvements estimated to be achievable through improved worker-job matches" (Bendick, 1989: 19). Johnson et al. (1985) found a benefit of $1.80 for each dollar spent by the ES on agency services. One could imagine the benefits which could be achieved by a model ES of the twenty-first century using leading technology to refer people to jobs. Compared to European countries with successful employment services, USES is grossly

underfunded. The staff population ratio is 1:5600 in England; 1:1607 in Sweden; and 1:1250 in Germany; it is 1:11,047 in the United States (Carlson et al., 1986).

The purpose of this section has been to illustrate the importance of an effective, well-functioning ES. Even from the narrow cost-benefit perspective of reducing net federal spending, spending money on improving the labor exchange can have significant payoffs. Although the calculations presented here are merely illustrative, they do point out the benefits.

A well-functioning labor market can also be effective in increasing productivity of U.S. firms and hence improve our competitive advantage at a time when the U.S. trade position is rapidly deteriorating.

Data Available to Evaluate the ES

The data routinely collected to monitor the performance of the ES system is inadequate. The Employment Service Automated Records System (ESARS) was abolished in June of 1985 as a federal requirement. This action was taken to comply with the Paperwork Reduction Act, and it occurred when responsibility for the ES was decentralized.

Figure 4 presents a basic matrix of information any analyst would need to study the USES-SESAs system. These data items used to be collected in ESARS.

Figure 4

Employment Service Performance - Applicants

Program Year 1987

July 1, 1987 - June 30, 1988

	Total applicants	Referrals	Placements	Placements over 150 days	Average wages
Total	18,439,000	7,056,000	3,230,000	2,228,000	NA
Economically disadvantaged	3,627,100	NA	NA	NA	NA
Minority	NA	NA	NA	NA	NA
Under 22	NA	NA	NA	NA	NA
Female	8,152,897	NA	NA	NA	NA
Veterans	2,471,800	1,090,232	445,813	NA	NA
UI claimants	6,431,700	NA	NA	NA	NA

NA = Not Available

Source: U.S. Employment Service, Division of Planning and Operations, November

1988.

The number of NA's on the table illustrates the paucity of information available on a program costing taxpayers $800,000,000 per year.

The GAO is completing a study for PY 1986 which will provide a rich source of data on ES operations. Results and data from the GAO study were not available in time for inclusion here.

V. Future Options

Introduction

As we enter an era of emerging labor shortages, intermediaries that better match workers and jobs can make a critical difference to the competitiveness of American industry as well as provide workers with better jobs. In November 1988, seventy-five labor market areas had unemployment rates of 4 percent or lower.

A major argument for government involvement as a labor exchange intermediary is that certain workers (e.g., the economically disadvantaged, or beneficiaries of AFDC, food stamps, or UI) have difficulty finding jobs on their own without outside assistance. It may be cheaper for the government to subsidize their finding a job than to pay benefits. A moral hazard exists, however, in providing these services largely through the SESAs: if the SESAs become stigmatized as providers of workers with special employment problems, employers may be reluctant to use them, vastly reducing their effectiveness and potentially *increasing* the pool of people with special problems!

Another complication is that the USES-SESAs consists of fifty-four state agencies with some 1,800 local offices. They range in effectiveness from excellent to poor. They serve different labor markets with differing economic conditions and problems.

Policy Alternatives

Five options discussed here are:

1) maintain the status quo;

2) withdraw from public responsibility for labor-exchange services;

3) give up state control in the management of labor-exchange responsibilities (i.e., federalize);

4) abandon federal oversight of the management of labor-exchange functions (i.e., devolve to the states); or

5) adopt a "hybrid" approach that uses market incentives to achieve efficiencies akin to good business practices, but which retains public responsibility for defining appropriate system goals and performance standards.

Each of these approaches is examined in figure 5.

Total withdrawal from public responsibility is inconsistent with prevailing social values in the United States, for the reasons given in section III.

Devolution to the states may be attractive for budgetary reasons, but it too is inconsistent with majority public attitudes toward federal government stewardship. Selective devolution of specific activities is advocated (e.g., UI availability, active search for work, and willingness to accept a bona fide job offer requirements; mass recruitment on behalf of a single employer; and state-specific labor market information investments beyond the uniform core--not yet defined--already mandated by the Congress as a federal responsibility).

Maintenance of the status quo appears to be the least desirable alternative. The federal capacity to monitor SESA performance; to invest in staff competencies and equipment technologies that are consistent with today's challenges; to design ways to take advantage of positive aspects of self-interest motives while guarding against untoward effects; and to cooperate as a viable partner with other federal, state, local and private-sector activities that logically

require SESA participation, has been compromised through short-sighted actions. Change is required.

Federalization is simply out of the question at this time. It is inconsistent with federal budget exigencies, policy decisions in complementary program areas (e.g., JTPA, AFDC and vocational education), and prevailing public attitudes toward government.

Figure 5

Advantages and Disadvantages of Alternative Future Approaches

Withdraw from Public Responsibility

Advantages:

- Reduced budgetary demands.
- Creates an environment in which substitute sources of service delivery can emerge/prosper.

Disadvantages:

- Those who cannot pay may not be able to obtain these services in some states.
- Jeopardizes opportunity to achieve economies of scale and positive externalities that flow from efficient labor market transactions.
- Terminates existing interdependencies between other public and private sector agencies and the USES-SESA system.
- Lost productivity from labor market intermediary.

Devolve to the SESAs

Advantages:

- Reduces federal expenditures.
- Promotes state attention to service priority rankings.

Disadvantages:

- Jeopardizes the pursuit of compelling *federal* responsibilities to constituents.
- Disrupts existing federal/state relationships.

Maintain the Status Quo

Advantages:

- Minimum disruption of current staff/facility/equipment commitments.
- No interference with established cooperative relationships with other public and private sector organizations.
- No change in constituent expectations of service quality and availability.

Maintain the Status Quo (cont'd.)

Disadvantages:

- Uneven performance with respect to compelling public responsibilities.
- Uneven staff qualifications to perform necessary functions.
- Limited external advocacy for continued support of the system in its present form.
- Continual deterioration of services possible.

Federalize

Advantages:

- Permits easier quality control of service delivery and compliance with compelling federal responsibilities.
- Promotes homogeneity of service delivery practices.

Disadvantages:

- Establishes monopoly status with attendant loss of competitive discipline.
- Jeopardizes local flexibility to respond to emerging priorities.
- Flies in the face of pressures to reduce federal expenditures.
- Inconsistent with trends in other employment and training programs.

A Modified "Market" Approach

Advantages:

- Combines a need for continued government oversight and funding to achieve compelling public responsibilities with a reliance on market incentives to promote efficiency.
- Places a greater burden on the public partners (federal, state, and local) to identify and carry out their appropriate responsibilities.
- Offers previously excluded parties an opportunity to bid for participation in delivery services.

Disadvantages:

- Jeopardizes established institutional relationships and personnel commitments.
- Risks unstable delivery of services, as sanctions are imposed on unacceptable vendors.

This leaves what we refer to as "a modified market approach"[3] to be developed in greater detail in the next section.

Modified Market Approach

1. Decentralization

Many other aspects of federal employment and training administration have already been decentralized. There is little likelihood that this trend will be reversed. We recommend allocating a substantial part of the current federal budget for the USES-SESAs system to states on a contingent block grant basis. States (i.e., governors) would be required to meet standards for performance in the use of these federal funds, but could use any mix of public and private sector providers. Core testing, assessment and referral, federal program enforcement and compliance, target group advocacy, and specified labor market information activities would be required. Since performance standards are already required for other employment and training activities, and since we recommend greater flexibility in mixing and matching grant funds, we think performance standards for ES activities are necessary for our proposal to work.

With the advent of welfare reform, yet another institution might be set up to duplicate labor exchange services unless the states are allowed to exercise adequate management control. By allowing states maximum flexibility to accomplish broad goals, the states can better minimize duplicate administrative structures. Several states have already taken steps to offer integrated public services. A cost of pursuing this approach is loss of the institutional stability that accompanies presumptive deliveror status.

2. Competitive Grants for Innovative Practices

We propose that an initially small but growing share of federal dollars be allocated on a competitive basis to states proposing innovative approaches or services of demonstrated effectiveness that meet federal goals. The key requirement here, of course, is to define "innovative approaches," "services of demonstrated effectiveness," and "federal goals." Equitable competition for the funds, systemic stability, and maintenance of administrative credibility all depend on a clear statement of purpose and performance measurement practices. This discretionary allocation is intended to serve as a carrot to increase the quality of existing programs. The USES can assure that twenty-first century federal stewardship is consistent with the supply and demand dynamics described in this paper. The National Assessment of Vocational Education has documented how difficult it is to administer federal funds that are intended for innovative and expanded purposes only. The will to manage must be matched by the creation of the necessary administrative capacity to provide the necessary leadership and oversight. For examples of innovations that are already being tried by individual SESAs, see Bendick (1989) and Tracy (1989).

Our view is that an increasing federal budget would be allocated to states that elect to offer quality public employment services. We believe that the social benefits to be derived from such an institution far outweigh the costs. If, on the other hand, few states qualify, the budget for the USES-SESAs system could be reduced.

3. A National Center for Employment Service Training and Research

The USES should retain an adequate percentage of the federal appropriation for staff capacity building and developing technologies

which can be disseminated to the SESAs; for research and evaluation; and for achieving national economies of scale in developing labor market information (e.g., improving competency testing and validity instruments such as the GATB test, improving or supplanting the Dictionary of Occupational Titles, and various approaches to increase job listings and applicant referrals).

4. *Phase In Over Time*

Any proposal to allocate substantial federal funds on a contingent block grant basis to governors, accompanied by smaller shares to be allotted on a competitive basis to the states and retained at the federal level for training, research, development, and evaluation, should be phased in over, say, five years. For example, during the first year 95 percent of last year's budget might be allocated on a block grant basis, with 5 percent being retained for national activities and incentive allotments. This would give states time to adjust, and would permit a federal administrative capacity to be reestablished.

There is no apparent reason why the current USES should not be retained as the organizational foundation within which to build the necessary management capacity to deal with the governors, the SESAs and other interested parties. Similarly, the Interstate Conference of Employment Security Agencies (ICESA), which is no longer federally funded, is the obvious administrative entity to work with the USES and the National Governors' Association to create the necessary staff capabilities to manage the system that is envisaged.

5. *State Options*

Each governor would be free to select from among many models to design a preferred approach before contracting for the required

federally mandated services. In most states, where the SESA enjoys a good reputation, governors can be expected to begin with the status quo. Other states may choose to experiment with the use of vouchers and tax credits immediately. Some states may emphasize the traditional listing of job openings and referral of individuals to jobs, while others emphasize testing, assessment, and greater reliance on individual use of more general labor market information. Some governors will combine JTPA-SESA and some welfare services. Only outcomes will be evaluated, not the auspices through which they are achieved.

Given the demonstrated difficulty of introducing JTPA and Carl Perkins Vocational Education Act directives that are consistent with alleged Congressional intent, combined with the contentious history of the USES' own introduction of a Balanced Placement Formula, followed by a more complex Resource Allocation Formula, why do we persist in proposing yet another performance-based approach to the allocation of federal funds? The answer is simple: there really isn't any practical alternative. Federal budget exigencies, combined with changes in related program authorizations and administrative approaches, considered in the context of expected international dynamics in the 1990s, require a renewed capacity to deliver the services that have been described in this paper.

If this isn't incentive enough, consider the fact that the member nations in the European Community are realigning their public employment services in anticipation of 1992.[4] Should we be doing anything less?

NOTES

1. Kolderie's other elements were corruption and costs.

2. Data were not strictly comparable due to differences in treatment of mass placements and other changes in measurement. However, data were adjusted by the authors for comparability.

3. Bob Sheets coined this term in other writing coauthored with David Stevens.

4. The authors are preparing a paper commissioned by the International Labour Organization as part of a multi-nation reexamination of public- and private-sector employment agency relationship. This paper is expected to be available in August 1989.

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